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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
CHAIRMAN
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COMMISSIONER
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COMMISSIONER
MIKE GLEASON
COMMISSIONER
KRISTIN K. MAYES
COMMISSIONER

2006 JUN -2 A 11: 26

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR
AUTHORITY TO IMPLEMENT ARSENIC
COST RECOVERY MECHANISMS FOR ITS
AGUA FRIA WATER, SUN CITY WEST
WATER, HAVASU WATER, AND TUBAC
WATER DISTRICTS.

Docket No. W-01303A-05-0280

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS SUN CITY
WEST WATER AND WASTEWATER
DISTRICTS.

Docket No. WS-01303A-02-0867

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS MOHAVE
WATER DISTRICT AND ITS HAVASU
WATER DISTRICT

Docket No. WS01303A-02-0869

NOTICE OF FILING REVISED RUCO'S
REPORT ON STEP ONE ARSENIC
FILING - AGUA FRIA DISTRICT

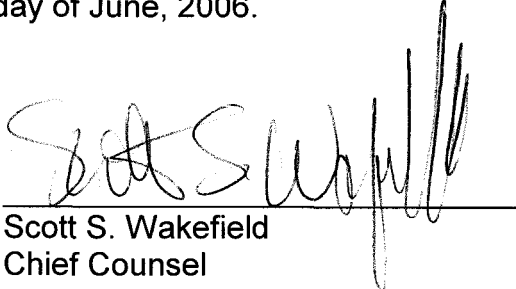
1 IN THE MATTER OF THE APPLICATION OF
2 ARIZONA-AMERICAN WATER COMPANY,
3 INC., AN ARIZONA CORPORATION, FOR A
4 DETERMINATION OF THE CURRENT FAIR
5 VALUE OF ITS UTILITY PLANT AND
6 PROPERTY AND FOR INCREASES IN ITS
7 RATES AND CHARGES BASED THEREON
8 FOR UTILITY SERVICE BY ITS ANTHEM
9 WATER DISTRICT, ITS AGUA FRIA WATER
10 DISTRICT, AND ITS ANTHEM/AGUA FRIA
11 WASTEWATER DISTRICT.

Docket No. WS-01303A-02-0870

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8 **NOTICE OF FILING REVISED RUCO'S REPORT ON**
9 **STEP ONE ARSENIC FILING - AGUA FRIA DISTRICT**

10 On May 8, 2006, the Residential Utility Consumer Office ("RUCO") filed its report on
11 Arizona-American Water Company's Step One ACRM filing for its Agua Fria Water District.
12 RUCO discovered a mathematical error in its report and attached schedule, and therefore files
13 its revised report. The only modification from the original filing is in the computation of the
14 AFUDC-Equity. As a result of the revision, RUCO recommends a surcharge of \$1.37 to the
15 monthly minimum charge and \$0.1598 per 1,000 gallons to the commodity rate.

16 RESPECTFULLY SUBMITTED this 2nd day of June, 2006.

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20 Scott S. Wakefield
21 Chief Counsel
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24

1 AN ORIGINAL AND NINETEEN
2 COPIES of the foregoing filed this
2nd day of June, 2006 with:

3 Docket Control
4 Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

5 COPY of the foregoing hand delivered/
6 mailed this 2nd day of June, 2006 to:

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By 

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**REVISED RUCO'S REPORT ON
STEP ONE ARSENIC FILING - AGUA FRIA DISTRICT**

AND

REVISED SCHEDULE RUCO ACRM-1

TO: Stephen Ahearn, Director
Scott Wakefield, Chief Counsel

FROM: Rodney Moore, Public Utilities Analyst V

RE: Report on RUCO's audit of the Arizona-American Water Company filing for an Arsenic Cost Recovery Mechanism (ACRM) Step 1 rate increase for its Agua Fria system. **Revised to correct AFUDC – Equity calculation**

AUDIT OBJECTIVE: The purpose and objective of this audit was to verify the capital expenditures of the recently completed three arsenic plants in the Agua Fria Water District, to verify that the plants are in service, verify compliance with Decision Nos. 68310 and 66400 authorizing the ACRM, and verify the accuracy of the requested ACRM surcharge.

AUDIT PROCEDURES: I performed the following audit procedures:

- 1) Verified that all schedules that are required by Decision No. 66400 are included in the application.
- 2) Reviewed Earnings Test for compliance, accuracy, and determined if the Company had passed the Earnings Test.
- 3) Reviewed all arsenic plant invoices, looking for such things as misallocations, unreasonable costs, non-arsenic plant costs, double billings etc.
- 4) Verified accuracy of Task Order totals and grand total.
- 5) Reviewed Revenue Requirement calculations for accuracy and compliance.
- 6) Reviewed rate design for compliance with 50/50 requirement, accuracy of calculations, and checked the reasonableness of the billing determinants by comparing to the prior rate case.
- 7) Verified that the Agua Fria plants were in-service.

AUDIT FINDINGS:

The Agua Fria ACRM filing is accurate and in compliance with Decision Nos. 68310 and 66400 with the following two exceptions:

- 1) After the issuance of new debt and equity cost rates in Decision No. 67093, the Company continued to accrue AFUDC on the arsenic plant at the old rates. Thus, the AFUDC - Debt included in the Agua Fria

arsenic plants is overstated by \$5,871 and the AFUDC - Equity is overstated by \$76,078.

- 2) The total Agua Fria arsenic plant request of \$8,821,618 includes \$180,723 in account 105260 Overhead costs. When questioned regarding the nature of these costs, the Company stated that these costs were allocations of overhead that cannot be directly charged to a specific task order so are allocated to all construction projects. While such allocations maybe acceptable in a general rate case, they are not appropriate in the context of an ACRM filing. The creation of an ACRM process was extraordinary and as a result intentionally limited to those costs that were specifically identifiable to the arsenic plant.

AUDIT RECOMMENDATIONS:

The Company's ACRM request should be adjusted to reflect the new AFUDC rates authorized in Decision No. 67093 and the general overhead not specifically related to arsenic plant should be removed. These recommended adjustments and the resultant RUCO recommended ACRM step 1 rate increases are displayed on attached schedule RUCO ACRM -1.

RUCO ADJUSTMENT TO ACRM - AGUA FRIA WATER DISTRICT

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] RUCO ADJUSTMENT | [C] RUCO AS ADJUSTED |
|----------|---|----------------------------|---------------------------|----------------------------|
| 1 | Arsenic Plant Revenue Requirement | | | |
| 2 | Arsenic Plant in Service/Rate Base | SEE NOTE A | | |
| 3 | Depreciation rate | \$ 8,821,618 | (262,672) | \$ 8,558,946 |
| 4 | Depreciation expense | 3.17% | | 3.17% |
| 5 | Depreciation expense net of tax savings ¹ | 279,229 | | 270,914 |
| 6 | Recoverable O&M costs | 171,450 | | 166,345 |
| 7 | Recoverable O&M costs net of tax savings ¹ | - | | - |
| 8 | Arsenic Operating Income | \$ (171,450) | | \$ (166,345) |
| 9 | Rate of return | -1.94% | | -1.94% |
| 10 | Required Rate of Return ² | 6.50% | | 6.50% |
| 11 | Required Operating Income | 573,405 | | 556,331 |
| 12 | Operating Income deficiency | 744,855 | | 722,677 |
| 13 | Gross revenue conversion factor ² | 1.62863 | | 1.62863 |
| 14 | Revenue deficiency | \$ 1,213,094 | | \$ 1,176,973 |

¹38.5986 % tax rate per Dec. 67093

²Decision No. 67093

COMPANY PROPOSED

| RATES | CURRENT RATES DEC. NO. 67093 | ACRM SURCHARGE | TOTAL PROPOSED |
|--------------------------------------|------------------------------------|-------------------|-------------------|
| Basic Monthly Minimum Service Charge | | | |
| 5/8" Meter | \$ 9.08 | \$ 1.41 | \$ 10.49 |
| Commodity Rates Per 1,000 Gallons | | | |
| 0 to 4,000 gallons | 1.3800 | 0.1647 | 1.5447 |
| 4,001 to 13,000 gallons | 2.0600 | 0.1647 | 2.2247 |
| 13,001 gallons and over | 2.4870 | 0.1647 | 2.6517 |

RUCO PROPOSED

| RATES | CURRENT RATES DEC. NO. 67093 | ACRM SURCHARGE | TOTAL PROPOSED |
|--------------------------------------|------------------------------------|-------------------|-------------------|
| Basic Monthly Minimum Service Charge | | | |
| 5/8" Meter | \$ 9.08 | \$ 1.37 | \$ 10.45 |
| Commodity Rates Per 1,000 Gallons | | | |
| 0 to 4,000 gallons | 1.3800 | 0.1598 | 1.5398 |
| 4,001 to 13,000 gallons | 2.0600 | 0.1598 | 2.2198 |
| 13,001 gallons and over | 2.4870 | 0.1598 | 2.6468 |

NOTE A

| | | | |
|--|--|--|--------------|
| RUCO Adjustment | | | |
| 105260 - OVERHEAD | | | \$ (180,723) |
| 105350 - AFUDC DEBT (AFUDC Reduced Since July 2004 By Effective Rates In Dec. No. 67093) | | | (5,871) |
| 105375 - AFUDC EQUITY (AFUDC Reduced Since July 2004 By Effective Rates In Dec. No. 67093) | | | (76,078) |
| TOTAL ADJUSTMENT | | | \$ (262,672) |